

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF HIMA-SIBERT
WATER DISTRICT

)
)
) CASE NO. 91-242
)

ALLEGED VIOLATION OF KRS CHAPTER 278

)
)
)

SHOW CAUSE ORDER

Hima-Sibert Water District ("Hima-Sibert") is a water district formed pursuant to the provisions of KRS Chapter 74. Hima-Sibert is engaged in the distribution of water to the public for compensation and is subject to the regulatory jurisdiction of this Commission pursuant to KRS 278.040.

On June 15, 1989, the Public Service Commission Staff ("Staff") completed its audit of the financial statements of Hima-Sibert for the year ended December 31, 1987, which is attached hereto as Exhibit A and incorporated herein by reference. As part of the audit, Staff examined accounting records supporting the payment of interest on customer deposits as provided by KRS 278.460. The review revealed that Hima-Sibert was not paying interest on customer deposit refunds as required by KRS 278.460.

Staff wrote Hima-Sibert on June 15, 1989, advising it of its noncompliance with KRS 278.460 and directing it to begin paying interest on customer deposit refunds. On September 14, 1989, Hima-Sibert responded by letter that it agreed with the audit and intended to comply with the recommendations. That letter is

attached hereto as Exhibit B and incorporated herein by reference. When Staff revisited Hima-Sibert on April 23, 1991 for the purpose of following up on the findings noted in the audit report, Staff found Hima-Sibert to be inconsistently paying interest on customer deposit refunds from 1988 to present. The above information is contained in the Staff Report on Audit Report Follow-Up of Hima-Sibert Water District performed on April 23, 1991, which is attached hereto as Exhibit C and incorporated herein by reference. Following the April 23, 1991 visit, Staff sent a detailed letter with examples of the appropriate procedure for calculating interest and customer deposits, which is attached hereto as Exhibit D and incorporated herein by reference.

The Commission finds that a prima facie showing has been made that Hima-Sibert has violated KRS 278.460 by failing to pay interest at 6 percent annually on amounts required to be deposited by its customers. Pursuant to KRS 278.990(5), this type of violation warrants a penalty of not less than \$100 for each offense.

IT IS THEREFORE ORDERED that:

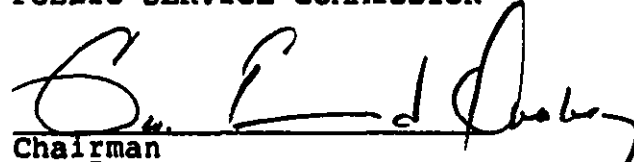
1. Hima-Sibert shall appear at a hearing scheduled for September 12, 1991 at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, and be prepared to show cause why Hima-Sibert should not be penalized pursuant to KRS 278.990(5) for its failure to comply with KRS 278.460.
2. Hima-Sibert shall immediately begin payment of interest on customer deposits as required by KRS 278.460.

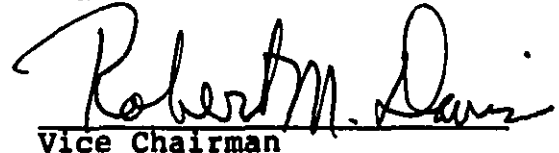
3. Hima-Sibert shall submit a written response to all allegations contained herein within 20 days of the date of this Order.

4. Hima-Sibert shall appear at an informal conference scheduled for August 28, 1991 at 1:30 p.m., Eastern Daylight Time, in Conference Room 2 of the Commission's offices and shall bring to the conference an itemized list with names and addresses showing all customer deposits received since January 1, 1987. This list shall include the amount of the deposit, the date deposit was received, and if refunded to the customer, the date refunded and the amount of the refund including interest.

Done at Frankfort, Kentucky, this 31st day of July, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director

HIMA-SIBERT WATER DISTRICT
HIMA, KENTUCKY

REPORT OF AUDIT
YEAR ENDED DECEMBER 31, 1987.

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COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY 40602
(502) 564-3940

INDEPENDENT AUDITOR'S REPORT

To The Kentucky Public Service Commission

We have audited the accompanying balance sheet of Hima-Sibert Water District as of December 31, 1987, and the related statements of operations and unappropriated retained earnings for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District, in compliance with the reporting requirements of the Kentucky Public Service Commission, is not required to prepare a statement of cash flows. The statement, therefore, has been omitted. Presentation of such statement summarizing the District's operating, investing and financing activities is required by generally accepted accounting principles.

In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly the financial position of Hima-Sibert Water District as of December 31, 1987, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Rates and Tariffs Division

June 15, 1989

HIMA-SIBERT WATER DISTRICT
BALANCE SHEET
DECEMBER 31, 1987

****ASSETS AND OTHER DEBITS****

	UTILITY PLANT (Note 1):	
101	Utility Plant in Service	\$ 266,660.62
110	Accumulated Provision for Depreciation and Amortization of Utility Plant	(110,760.58)

	Net Utility Plant	155,900.04

	CURRENT AND ACCRUED ASSETS:	
131	Cash and Working Funds (Note 2)	9,563.44
132	Temporary Cash Investments (Note 2)	40,000.00
142	Customer Accounts Receivable (Note 1)	6,489.37
166	Prepayments	49.37
170	Other Current and Accrued Assets	
	Accrued Interest Income	663.12
	Overpayment of Unemployment Insurance	113.34

	Total Current and Accrued Assets	56,878.64

	TOTAL ASSETS AND OTHER DEBITS	\$ 212,778.68
		=====

See notes to financial statements.

HIMA-SIBERT WATER DISTRICT
BALANCE SHEET
DECEMBER 31, 1987

****LIABILITIES AND OTHER CREDITS****

EQUITY:

216	Unappropriated Retained Earnings	\$ (60,535.09)

LONG-TERM DEBT:

221	Bonds (Notes 2 and 3)	35,500.00

CURRENT AND ACCRUED LIABILITIES:

232	Accounts Payable	2,767.50
235	Customer Deposits	1,030.00
237	Interest Accrued	1,208.64
238	Other Current and Accrued Liabilities	
	Bonds Maturing January 1, 1988 (Note 3)	1,500.00
	Sales Taxes	124.37

	Total Current and Accrued Liabilities	6,630.51

CONTRIBUTIONS IN AID OF CONSTRUCTION:

271	Contributions in Aid of Construction	231,183.26

TOTAL LIABILITIES AND OTHER CREDITS

\$ 212,778.68
=====

See notes to financial statements.

HIMA-SIBERT WATER DISTRICT
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1987

OPERATING REVENUES:		
461.1	Metered Sales to Residential Customers	\$ 47,739.34
461.2	Metered Sales to Commercial Customers	10,790.82

	Total Water Service Revenues	58,530.16

OTHER OPERATING REVENUES:		
470	Forfeited Discounts	1,229.69
471	Miscellaneous Service Revenues	40.00

	Total Other Operating Revenues	1,269.69

	TOTAL OPERATING REVENUES	\$ 59,799.85
		=====
OPERATING EXPENSES		
OPERATION AND MAINTENANCE EXPENSE ACCOUNTS		
Source of Supply Expenses:		
601	Purchased Water (Note 1)	\$ 37,742.30

Transmission and Distribution Expenses:		
640	Operation Labor	6,480.00
641	Operation Supplies and Expenses	1,587.62
651	Maintenance of Mains	2,269.97
653	Maintenance of Meters	145.00

	Total Transmission and Distribution Expenses	10,482.59

Customer Accounts Expenses:		
901	Meter Reading Labor	3,240.00
902	Accounting and Collecting Labor	3,480.00
903	Supplies and Expenses	860.24
904	Uncollectible Accounts	650.20

	Total Customer Accounts Expenses	\$ 8,230.44

See notes to financial statements.

HIMA-SIBERT WATER DISTRICT
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1987

Administrative and General Expenses:		
921	Office Supplies and Other Expenses	\$ 75.42
923	Outside Services Employed	980.00
930.2	Miscellaneous General Expenses	154.50
933	Transportation Expenses	1,249.47
935	Maintenance of General Plant	30.00

	Total Administrative and General Expenses	2,489.39

	Total Operation and Maintenance Expenses	58,944.72

403	Depreciation Expense	8,630.96
408.1	Taxes Other Than Income Taxes	
	Payroll Tax	202.70
	PSC Assessment	95.82

	Total Depreciation and Taxes	8,929.48

	TOTAL OPERATING EXPENSES	67,874.20

	NET OPERATING LOSS	(8,074.35)

OTHER INCOME:		
419	Interest and Dividend Income	3,009.26

OTHER DEDUCTIONS:		
427	Interest on Long-Term Debt	1,757.50
431	Other Interest Expense	52.43

	Total Other Deductions	1,809.93

	NET LOSS	\$ (6,875.02)

See notes to financial statements.

HIMA-SIBERT WATER DISTRICT
STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1987

216 **UNAPPROPRIATED RETAINED EARNINGS**

Retained Earnings at beginning of year:

As previously reported	\$(53,750.42)
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Correction of errors (Note 4)	90.35

Adjusted Balance of Retained Earnings at beginning of year	(53,660.07)
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Balance transferred from operations	(6,875.02)

Retained Earnings at end of year	\$(60,535.09)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: Significant Accounting Policies

Regulation Requirements. The financial statements at December 31, 1987, are reported in accordance with the Uniform System of Accounts for Class C Water Utilities, Financial Accounting Standards Board Statement No. 71, "Accounting for Regulated Industries," and other Kentucky Public Service Commission ("PSC") prescribed policies and regulations.

Utility Plant. Utility plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation. Depreciation is applied on the straight-line method over the estimated useful life of the asset and is recognized in accordance with Statement of Financial Accounting Standards No. 93, "Recognition of Depreciation by Not for Profit Organizations."

Customer Accounts Receivable. The District charges any uncollectible accounts directly to current operations. All accounts at December 31 are thought to be collectible.

Purchased Water Costs. Water purchases are charged to expense as delivered to the distribution system. The District is economically dependent on Manchester Municipal Water Works as the sole supplier of water.

Income Tax Status. The District was formed as a nonprofit organization. The District is exempt from Federal and State income taxes. Accordingly, the financial statements include no provision for income taxes.

NOTE 2: Special Funds

The special funds required to be established and maintained in accordance with the conditions for the issuance of the water system revenue bonds to Hima-Sibert Water District are described in the subsequent paragraphs.

All project revenues shall be deposited into a single bank account. The net revenues remaining after payment of the operating and maintenance expenses shall be transferred into one or more bank accounts for the purposes explained below.

Funds necessary for the next interest payment due shall be accumulated by 6 equal monthly installments beginning 6 months before each interest payment date.

Funds necessary for the next principal payment due shall be accumulated by 12 equal monthly installments beginning 12 months before each principal payment date.

From three-fourths of the remaining funds, a reserve shall be accumulated for the payment of interest and principal payments equal to the maximum annual interest and principal payment provided for in the repayment schedule.

A depreciation reserve equal to 5 percent of the project costs shall be established.

All funds are reported on the balance sheet as cash and temporary investments.

NOTE 3: Bonds Payable

All bonds outstanding are \$500 face value, 4-3/4 percent revenue bonds maturing on January 1 of each year. Bonds outstanding at December 31, 1987, are as follows:

<u>Date Due</u> <u>January 1</u>	<u>Amount</u>	<u>Date Due</u> <u>January 1</u>	<u>Amount</u>
1988	\$ 1,500	1998	\$ 2,000
1989	1,500	1999	2,000
1990	1,500	2000	2,000
1991	1,500	2001	2,000
1992	1,500	2002	2,000
1993	1,500	2003	2,500
1994	1,500	2004	2,500
1995	1,500	2005	2,500
1996	1,500	2006	2,500
1997	2,000	2007	<u>1,500</u>
Total			\$37,000
Maturing as of January 1, 1988			<u><1,500></u>
Balance Due December 31, 1987			<u>\$35,500</u>

All bonds are subject to redemption by the District prior to maturity, in whole or in part, on any interest payment date with not less than 30 days prior notice in inverse numerical order, at par and accrued interest plus the following premium:

2-1/2% if redeemed present through January 1, 1990
 2% if redeemed July 1, 1990 through January 1, 1995
 1-1/2% if redeemed July 1, 1995 through January 1, 2000
 1% if redeemed July 1, 2000 through January 1, 2005
 0% if redeemed after January 1, 2005

NOTE 4: Correction Of Errors

Prior period adjustments include errors resulting from the failure to expense items in the period in which they are incurred.

Adjustments to accumulated depreciation were made to adequately reflect depreciated plant.

The overstatement of beginning accounts receivable was corrected.

A correction was also made to adjust beginning customer deposits to actual per audit. An adjustment to accrue interest on customer deposits was made.

A liability was inappropriately maintained on the books and an overpayment made in a prior period was not recorded. These errors were corrected by proper entries to the accounts.

Prior period adjustments consist of the following:

Expenses - 1986	\$ 2,785.37
Expenses - 1987	<2,602.25>
Depreciation Adjustment	<1,357.10>
Beginning Accounts Receivable - Overstatement	1,077.86
Customer Deposits - Interest Accrual	277.46
Liability - Correction of Error	<200.00>
Overpayment - Correction of Error	<113.34>
Customer Deposits - Understatement	<u>41.65</u>
Prior Period Adjustment - Net	<u>\$ <90.35></u>

NOTE 5: Commitments and Contingencies

The Water System Revenue Bonds, Series 1970, are secured by a first lien on the net revenues from the operation of the water system and are additionally secured by a mortgage on the system.

The District is underinsured with respect to future loss or damage to its property, as well as to liability resulting from damage to the property of others. This is an existing uncertainty; however, the absence of insurance does not mean that an asset has been impaired or a liability incurred as of the date of the financial statements.

NOTE 6: Subsequent Events

Subsequent to the date of the financial statements, the District filed an application for a rate increase with the Public Service Commission. An Order was issued in Case No. 89-028 authorizing a rate increase effective June 16, 1989.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 515
FRANKFORT KY 40602
(502) 564-3940

June 15, 1989

Mrs. Mary Gregory
Secretary/Treasurer
Hima-Sibert Water District
Route 4, Box 60
Manchester, Kentucky 40962

Dear Mrs. Gregory:

We have examined the financial statements of Hima-Sibert Water District for the year ended December 31, 1987, and have issued our report to the Commission thereon dated June 15, 1989. As part of our examination, we made a study and evaluation of the utility's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the utility's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Hima-Sibert Water District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Hima-Sibert Water District taken as whole.

We have chosen not to rely on accounting controls because there is inadequate segregation of duties in the authorization, execution and recording of transactions and the custody of related assets. Further, there is inadequate documentation of the performance of control procedures to permit compliance testing.

The following comments supplement the information reflected in the financial statements and notes to the financial statements.

Accounting and Recordkeeping Procedures

The District's accounting records and procedures are subject to the requirements established by the Uniform System of Accounts for Class C Water Utilities ("USOA"), as well as those prescribed by the Kentucky Public Service Commission ("PSC"). The review, however, disclosed several material deviations from the USOA and prescribed practices and procedures. We have noted the following exceptions.

1. Records. Adequate records were kept by the District with the following exceptions:

Plant records were insufficient to easily determine the historical cost of utility property, plant and equipment. We recommend that a subsidiary plant ledger be maintained with the accounting records to contain at a minimum a card or sheet for each unit of property, showing details such as description, location, cost, vendor, date of purchase or installation, estimated salvage value, rate and method of depreciation, depreciation accumulated to date and repairs. Supplementary information to the plant ledger would include documentation of periodic inventories and periodic appraisals of property, plant and equipment for insurance purposes.

Several instances were noted where invoices for expenses were not available for review. The District should exercise care to retain all evidence of cash disbursements.

Customer deposit records were insufficient to easily determine the balance of each customer. We recommend that a subsidiary ledger be maintained with the accounting records to contain a card or sheet for each customer showing details such as customer name, amount of deposit, date of deposit, date of refund, and amount of interest paid.

Recordkeeping procedures to document revenue from service charges were inadequate. All service charges should be recorded as they are billed, identifying the customer, amount due, and type of service charge.

Several errors were noted in the computation of commercial sales for the purpose of remitting sales tax. Care should be taken in the computation of commercial sales and completion of the returns to insure that the amount of sales tax remitted is correct.

2. Interest Accrual. Generally accepted accounting principles require that all existing liabilities be recorded in the proper period. Interest should be accrued on customer deposits not refunded. The interest shall be applied at a rate of 6 percent annually pursuant to KRS 278.460. Adjustments have been made to comply and are directed in accordance with this finding.

3. Accrual Accounting. The District is required to keep its accounts on the accrual basis. This requires that all items be recorded in the proper period. Several instances were noted where the District did not expense items applicable to the current period or did expense items which were applicable to the prior period. Care should be exercised to expense items in the period in which they are incurred. Adjustments have been made and are directed in accordance with this finding.

Tariff and Rates Charged

The District has a tariff currently on file with the Kentucky Public Service Commission. The rate charges for water and services are approved by the Commission with the following exceptions:

1. Customer Deposits. The amount required of customers for a deposit is not specified in the District's tariff. According to KRS 278.160:

Under rules prescribed by the Commission, each utility shall file with the Commission, within such time and in such form as the Commission designates, schedules showing all rates and conditions for service established by it and collected or enforced . . .

On the next occasion the District is required to file an updated tariff, the amount of the customer deposit should be specified in the tariff.

2. Interest On Customer Deposits. The District does not pay interest on customer deposit refunds. KRS 278.460 states:

Public utilities, such as gas, electric and water companies, shall pay interest at six percent (6%) annually on amounts required to be deposited by patrons to secure gas, electric or water accounts.

The District is directed to begin paying interest on customer deposit refunds in compliance with KRS 278.460.

3. Rates. The District charged unauthorized rates for water during 1987. Pursuant to KRS 278.180, no utility shall change any rate unless the change is first approved by the PSC.

The District filed an application for approval of an increase in water rates on February 6, 1989. An Order in Case No. 89-028 was issued authorizing a rate increase effective June 16, 1989.


The foregoing is without prejudice to the right to require hereafter such adjustments as may be considered proper from additional information which may come to the attention of the Commission.


A written response to all audit findings and recommendations contained herein shall be delivered to the Public Service Commission within 20 days from the date of the exit conference. In addition, a statement of the recommendations implemented or the reason for failure to implement any recommendation or to make any adjustment directed must be given.

Mrs. Gregory
June 15, 1989
Page Five

Our comments, as presented herein, deal exclusively with administrative, accounting and recordkeeping procedures and should not be regarded as reflecting upon the integrity or capability of anyone in your organization. We would like to thank you and Mr. Gregory for the cooperation shown us during the course of our examination.

This report is intended solely for the use of management and the Kentucky Public Service Commission and should not be used for any other purpose.


Mary Anne Gill, Manager
Financial Audit Branch


Vicky F. Stewart
Audit Team Leader


Beverly B. Davis
Financial Auditor

HIMA-SIBERT WATER DISTRICT
AUDIT ADJUSTMENTS
December 31, 1987

<u>Account Number</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
	(1)		
439	Adjustments to Retained Earnings	\$2,785.37	
601	Purchased Water		\$2,676.25
641	Operation Supplies and Expenses		66.12
933	Transportation Expenses		43.00
	to adjust for 1986 expenses which were expensed in 1987		
	(2)		
601	Purchased Water	2,425.00	
903	Customer Accounts Supplies and Expenses	50.00	
930	Miscellaneous General Expenses	33.00	
933	Transportation Expenses	94.25	
439	Adjustments to Retained Earnings		2,602.25
	to adjust for 1987 expenses which were expensed in 1986		
	(3)		
142	Customer Accounts Receivable	1,401.51	
461	Metered Sales to General Customers		1,401.51
	to adjust accounts receivable to actual per audit		
	(4)		
110	Accumulated Provision for Depreciation and Amortization of Utility Plant	1,315.02	
403	Depreciation Expense	42.08	
439	Adjustments to Retained Earnings		1,357.10
	to adjust accumulated depreciation per audit		

<u>Account Number</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
	(5)		
439	Adjustments to Retained Earnings	\$1,077.86	
461	Metered Sales to General Customers		\$1,077.86
	to adjust for overstatement of beginning accounts receivable		
	(6)		
461	Metered Sales to General Customers	964.07	
470	Forfeited Discounts		964.07
	to adjust forfeited discounts to actual per audit		
	(7)		
101	Utility Plant in Service	330.00	
640	Operation Labor		198.00
901	Meter Reading Labor		99.00
902	Accounting and Collecting Labor		33.00
	to capitalize cost of installing three (3) water taps		
	(8)		
431	Other Interest Expense	52.43	
439	Adjustments to Retained Earnings	277.46	
237	Interest Accrued		329.89
	to record interest expense and accrued interest on customer deposits		
	(9)		
439	Adjustments to Retained Earnings	41.65	
903	Customer Accounts Supplies and Expenses	160.00	
235	Customer Deposits		201.65
	to adjust customer deposits to actual per audit		

<u>Account Number</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
	(10)		
238	Other Current and Accrued Liabilities	\$200.00	
439	Adjustments to Retained Earnings		\$200.00
	to remove accrued wages since wages were paid at year end		
	(11)		
236	Taxes Accrued	131.57	
461	Metered Sales to General Customers	10.78	
408	Taxes Other Than Income Taxes		142.35
	to adjust for payroll and sales tax		
	(12)		
408	Taxes Other Than Income Taxes	124.37	
238	Other Current and Accrued Liabilities		124.37
	to adjust for fourth quarter 1987 sales tax		
	(13)		
170	Other Current and Accrued Assets	113.34	
439	Adjustments to Retained Earnings		113.34
	to record overpayment of unemploy- ment insurance		

HIMA-SIBERT WATER DISTRICT
AUDIT RECLASSIFICATIONS
December 31, 1987

<u>Description</u>	<u>Amount</u>	<u>Account Charged</u>	<u>Proper Account</u>
Commercial sales	\$1,958.28	461.1 - Metered Sales to Residential Customers	461.2 - Metered Sales to Commercial Customers
Water sales	648.89	471 - Miscellaneous Service Revenues	461 - Metered Sales to General Customers
Forfeited discounts	265.62	471 - Miscellaneous Service Revenues	470 - Forfeited Discounts
Backhoe work	1,860.34	640 - Operation Labor 901 - Meter Reading Labor 902 - Accounting and Collecting Labor	651 - Maintenance of Mains
Testing water meters	145.00	640 - Operation Labor 901 - Meter Reading Labor 902 - Accounting and Collecting Labor	653 - Maintenance of Meters
Gravel	184.63	641 - Operation Supplies and Expenses	651 - Maintenance of Mains
Postage	550.00	921 - Office Supplies and Other Expenses	903 - Customer Accounts Supplies and Expenses
Water bills	66.00	921 - Office Supplies and Other Expenses	903 - Customer Accounts Supplies and Expenses
Meter reading book	34.24	921 - Office Supplies and Other Expenses	903 - Customer Accounts Supplies and Expenses
Automobile insurance	234.78	924 - Property Insurance	933 - Transportation Expenses
Payroll tax	28.60	930.2 - Miscellaneous General Expenses	408 - Taxes Other Than Income Taxes
Pipeline encroachment rental	9.00	930.2 - Miscellaneous General Expenses	641 - Operation Supplies and Expenses
Asphalt for patching	225.00	930.2 - Miscellaneous General Expenses	651 - Maintenance of Mains
Bank charges	45.00	930.2 - Miscellaneous General Expenses	921 - Office Supplies and Other Expenses
Typewriter repair	30.00	930.2 - Miscellaneous General Expenses	935 - Maintenance of General Plant

Hima-Sibert Water District

General Delivery
Hima, Kentucky 40951
(606) 598-3449

September 14, 1989

RECEIVED

SEP 19 1989

RATES AND TARIFFS

Ms. Beverley Davis
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, Ky. 40602

Dear Ms. Davis;

I read and agree with the Audit Adjustments and recommendations,
and I intent to comply with the recommendations.

Thank you very much.

Mary Gregory, Sec. Treas.


Hima-Sibert Water District

STAFF REPORT
ON
AUDIT REPORT FOLLOW-UP
HIMA-SIBERT WATER DISTRICT

On June 15, 1989, Public Service Commission Staff ("Staff") completed its audit of the financial statements of Hima-Sibert Water District for the year ended December 31, 1987. As part of the audit, Staff examined accounting records supporting the payment of interest on customer deposits as provided by KRS 278.460.

In a letter to Mrs. Mary Gregory, Secretary/Treasurer of the Hima-Sibert Water District dated June 15, 1989, Staff wrote the following:

The District does not pay interest on customer deposit refunds. KRS 278.460 states:

Public utilities, such as gas, electric and water companies, shall pay interest at six percent (6%) annually on amounts required to be deposited by patrons to secure gas, electric or water accounts.

The District is directed to begin paying interest on customer deposit refunds in compliance with KRS 278.260.

In a letter dated September 14, 1989, Mrs. Gregory responded generally to the audit findings, as follows:

I read and agree with the Audit Adjustments and recommendations, and I intent (sic) to comply with the recommendations.

Staff Report on
Hima-Sibert Water District
Page 2 of 2

On April 23, 1991, Staff visited the offices of Hima-Sibert Water District for the purpose of following up on the findings noted in the audit report. With regard to Staff's findings on the payment of interest on customer deposits, the District was found to be inconsistently paying interest on customer deposit refunds from 1988 to the present. In its examination of the accounting records, Staff observed that of the refunds issued, sometimes interest was paid, and sometimes not.

Date 7/2/91

Christina Whelan

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Date 7/02/91

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COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
700 SCHENKEL CASH
POST OFFICE BOX 501
FRANKFORT, KY 40602
(502) 564-1940

April 30, 1991

Mrs. Mary Gregory
Hima Sibert Water District
Route 4, Box 60
Manchester, Kentucky 40962

Dear Mrs. Gregory:

As you requested, here are some instructions for collecting customer deposits and calculating interest on customer deposits.

Collecting Customer Deposits

First and most important, you must be in compliance with your filed tariff. As pointed out during our April 23, 1991 field visit, currently Hima Sibert's tariff states "the Water District may require a deposit from all customers not to exceed 2/12 of the customer's annual bill." It is our understanding that at present a \$30 flat rate is being collected. This practice must be stopped. From now on, when collecting a customer deposit, you must estimate the new customer's annual bill and multiply that number by 2/12 to arrive at the customer deposit.

For example, assume John Smith requests service. He has a family of four. You estimate his total yearly water bill to equal \$144. To calculate his customer deposit, multiply \$144 x 2/12:

- 1) $\$144 \times 2 = \288 .
- 2) $\$288 \div 12 = \24 .

Charge a \$24 customer deposit. This estimate may be based on criteria such as the number of family members or the number of bathrooms.

Of course, as we discussed, you may update your tariff so that you may collect a flat rate deposit of \$30. However, until your tariff is updated, you must make the 2/12 calculation.

Interest on Customer Deposits

As you are aware, interest must be paid on customer deposits, even if the deposit is held for less than one year. Up until July

13, 1990, the District was required to pay 6 percent interest annually. After July 13, 1990, the District should only pay interest at a rate no greater than it earns in interest and at no time shall the interest paid exceed 6 percent annually. This means that if you earn 5.25 percent on your customer deposit savings account, after July 13, 1990, you only pay 5.25 percent interest on the deposits. Also, remember to pay interest even if the customer has been on the system less than a year. Below are some examples of calculating interest on customer deposits:

I. Interest for customer who has been on the system less than one year.

- Step A: Deposit amount multiplied by interest rate
- Step B: Number of days customer on system + 365 days
- Step C: Step a multiplied by step b

Example 1. John Doe came on the system January 1, 1991. He paid a \$30 deposit and left the system March 3, 1991. You earn 6.5 percent interest on your saving account. Because this exceeds 6 percent, you will only pay 6 percent interest.

- Step A: $\$30 \times .06 = \1.80
- Step B: 62 days (January 1, 1991 - March 3, 1991) + 365 days = .1699
- Step C: $\$1.80 \times .1699 = \$.31$

John Doe's total refund will be \$30.31 if he has paid his final bill.

Example 2. Jane Doe came on the system May 11, 1991 and left November 7, 1991. She paid a \$30 deposit. You earn 5.25 percent on your savings account so you pay 5.25 percent interest because this is less than 6 percent.

- Step A: $\$30 \times .0525 = \1.58
- Step B: $180 + 365 = .4932$
- Step C: $\$1.58 \times .4932 = \$.78$

Jane Doe's total refund will be \$30.78.

II. Interest calculation for customer on system one year or longer.

When you add interest to your customer deposit amount each year, make sure the next time you add interest you base the new interest calculation on the new customer deposit amount, not just the original amount paid.

Example 1. John Doe, deposit date January 1, 1989. Assume you pay 6% interest.

Deposit Amount		\$30.00
1989 interest - $\$30 \times .06$	=	<u>1.80</u>
New total		31.80
1990 interest - $\$31.80 \times .06$	=	<u>1.91</u>
New total		33.71
1991 interest - $\$33.71 \times .06$	=	<u>2.02</u>
New total		\$35.73

Example 2. John Doe, deposit date January 1, 1989.

Assume you earn 5.25 percent, since this is less than 6 percent, pay 5.25 percent after July 13, 1990.

Deposit Amount		\$30.00
1989 interest - $\$30 \times .06$		<u>1.80</u>
New total		31.80
1990 interest thru 7/13/90		
$\$31.80 \times .06 \times 199/365$	=	<u>1.04</u>
		\$32.84
1990 interest 7/14/90 thru 12/31/90		
$\$32.84 \times .0525 \times 166/365$	=	<u>.78</u>
New Total		\$33.62
1991 interest - $\$33.62 \times .0525$	=	<u>1.77</u>
		\$35.39

If you have any questions about these calculations or other matters, please call me at (502) 564-2267.

Yours truly,

Melinda Evans

Melinda Evans, Auditor
Financial Audits Branch
Division of Rates and Tariffs